

FINANCIAL NEWS AND THE SITUATION

July Investors and Probable Summer Developments of Bond Market.

INQUIRIES INCREASING

Important Features of Our Extraordinary Situation in Security Buying.

By WILLIAM JUSTUS BOIES.

The financial markets enter to-day one of the most active weeks in the money market year, when the task of financing the July interest and dividend disbursements engages the attention of the financial community. The situation is unusually interesting just now because of the credit strain, efforts to bring about through deflation, the outcry of organized labor for government ownership of the railroads, prospective financing by railroads and industrial companies, agitation concerning the continuation of current dividends and preliminary skirmishing in anticipation of an extraordinary Presidential campaign. All of these factors bear on the investment outlook and give interest to the present course of events during the next four months, during which the extension of the campaign will relieve the markets of their usual summer monotony.

MONEY STRAIN.

June, although usually a period of low discount rates, has been anything but an easy money month. The markets have had no cheap money since the year opened, which is not surprising when the pressure of Government borrowings and demands from abroad are taken into account. Commercial credits are being curtailed. Banks are offering scarcely any money on time and competitive bidding for corporation bonds by investment houses makes it easy for lenders to obtain from 7 to 2 per cent for good sized loans. In such a situation the future course of money rates becomes a question of much importance and deserves to be studied carefully just as the outflow of currency to the harvesting sections is about to set in. The banks are at present offering a great volume of dead loans, representing credits set up in the freight blockade. That part of the loan market which has been relieved partially, but fully \$250,000,000 of credit usually available for commercial borrowers will not be accessible this year until the freight congestion shall have been permanently relieved.

PENDING LOANS.

The total demand for credit from borrowers is so great as to make it difficult to tell what the railroad financing can be expected to be available or how fully it will be possible for individual borrowers to finance requirements of industrial corporations. Some large industrial properties are greatly in need of funds to pay for equipment and improvement work required to maintain plants at rail efficiency. The question is, What proportion of the \$200,000,000 of July dividends and interest disbursements will be available for that purpose? The general bond market has been stagnating along that some bond dealers almost have abandoned hope that July investment buying will be the factor that it has been often in years when the public has held out during May and June. With the Government offering 6 per cent for savings bonds, the question arises whether the ordinary corporate bond buyer has had a good deal more than fear or make the loan otherwise attractive to win the support of genuine investors.

SHIFTING INVESTMENTS.

The average investor, however, does not like to put his money into short term securities likely to mature when credit is more abundant and safe bonds are being offered at prices higher in price. The best securities are available now for the lowest prices that have obtained since civil war days, and it is unreasonable to expect that the market will remain on a bargain level indefinitely. It is safe to look for some reversal of bond buying after the San Francisco convention makes its nominations. There will be a change in the economic sentiment and program when the issues of the campaign are likely to be. They will be disclosed within ten days, when the Democratic ticket will be in the field and the platform announced. Afterward the security markets are likely to be influenced by ups and downs of the Presidential campaign, as the experience of the last twenty-four years has shown that market is apt to run up the situation well in advance of election and often are surprisingly accurate in their conclusions. A great deal of money awaits investment and it is probable that a good deal of it will be lodged in good securities as soon as the campaign is well advanced, provided there is no disaster encountered and the crop turns out satisfactorily as the production indicated by last week's Government report.

HIGHER DISCOUNTS.

The experience of the last month shows that a 7 per cent. bond or note offered by a strong company appeals effectively to the investing public if the loan is not excessive. The buyer has the upper hand, however, and because the demand for credit is so largely in excess of supply, it is not difficult to pick his securities and limit his interests which borrowers in normal markets would never guarantee. The indications are, therefore, that the loans to be marketed during the next six months will offer not only the inducement of a high interest rate but also exceptional conversion privileges or other benefits calculated to attract the hard headed investor. The railroads have large maturities to provide for during the next year and to refund the loans advantageously and obtain additional capital required, they will be forced to make the loans as particularly attractive. A high income return offered by railroad or industrial corporation of sound credit looks pretty good to the most discriminating investor, especially in cases in which the loan is otherwise secured by good collateral. Such financing as is done through the sale of preferred stock often carries a 7½ or 8 per cent. dividend, although the basic security is not as great.

COMING SIX MONTHS.

The chances are, however, that during the coming six months the most extraordinary series of loans that the American credit market has had to reckon with will be brought out. Some securities may be offered in the effort to make foreign Government bonds more popular in this country. Some of them will carry attractive redemption features others valuable conversion privileges and nearly all of them possibilities of clearing handsome profits from recovery in exchange rates. In addition to one or more of these features some recent foreign issues have proven an ingenious device consisting of progressive drawings at certain intervals. These proposals never have taken well in this country, as the American investor disapproves of the gambling device and

prefers an end and out investment transaction. Unless all other fail, however, various foreign governments and municipalities will seek to place loans here before the year ends, provided they can obtain the Treasury's consent. On equal terms the average investor everywhere prefers to put his money into a security with which he is thoroughly familiar. But when a foreign loan is brought out by a responsible banking house in which he has confidence the American investor will often invest in a foreign bond issue, knowing that his interest will be paid in dollars and that his principal is safe.

ANGLO-FRENCH LOAN.

Most great foreign loans have been issued under the determination of the British Government to the aid of the Anglo-French \$500,000,000 loan which shall mature in October. Those bonds in the closing days of 1917 sold down to 81¢. Their lowest price of this year was 93¢. Most of the funds with which to pay off these securities were obtained by selling American bonds and stocks in the New York market. The Chancellor of the British Exchequer, early in the year, offered to buy any of the \$500,000,000 securities in his possession out of the amount borrowed from British sources.

during the war. There was never any doubt that a British loan would be paid at maturity or that its owners would be forced to extend it. But that action by the British Government in preparing to take up that great loan at maturity has helped the New York market for foreign issues and made possible for foreign Governments of high credit to borrow extensively here if they care to do so.

THE FUTURE.

It is apparent that the future of the bond market will be controlled largely by developments in the money situation. There is no easy money in sight and no reason to look for an enlarged supply available for security trading. But the price cutting campaign has advanced far enough to indicate that some of the credit will be released through that means and that the deflation process will continue until the nation's loan account shall be materially reduced. With those changes in the credit situation, bond reserves will be strengthened to a point where it will be possible to provide credits necessary to support sustained revival in the bond market. The English Standard & Chartered Bank for the rest of the world, although conditions in London are improving so rapidly as to

share soon again with New York the prestige which attaches to a great international banking centre. There is nothing in the present situation to become alarmed about and the business community should be thankful that the Federal Reserve banks long ago adopted a policy of strict economy and credit curtailment. The financial position of this market has been strengthened materially by it and it is apparent that we have begun scarcely to feel the benefits which will result from such a course.

OFFER ELECTRIC ISSUE.

Wm. A. Read & Co. are offering today a new issue of Cleveland Electric Illuminating Company fifteen year 7 per cent first mortgage collateral bonds due in 1935 for price reported as around 7½ per cent basis.

The bonds are to be secured by \$7,142,669 of Cleveland Electric Illuminating Company first mortgage 5 per cent bonds due in 1925. The deposit bonds, which totalled \$2,700,000, were issued on an authorized issue of \$35,000,000, secured by a first and only mortgage lien on the property of the company.

STOCK EXCHANGE SALES.

New York Stock Exchange sales were

ended June 19:

STOCKS

Monday 192,133 1,475,955 1918 537,453

Tuesday 208,528 1,322,400 382,710

Wednesday 233,411 1,438,000 442,098

Thursday 239,419 1,414,700 420,202

Friday 523,158 1,206,200 517,100

Saturday 190,000 755,100 276,800

TOTALS

2,261,237 7,504,655 2,500,000

BONDS (PAR VALUE)

Monday 192,900 1,475,000 1918 537,453

Tuesday 208,528 1,322,400 382,710

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TOTALS

2,229,239,000 655,140,000 350,818,000

Year to date

\$1,868,381,000 1,584,015,000 754,527,000

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